

Message Text

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ACTION NEA-09

INFO OCT-01 ISO-00 EB-05 NEAE-00 DRC-01 RSC-01 /017 W

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P R 091054Z AUG 74

FM AMEMBASSY ISLAMABAD

TO USDOC WASHDC PRIORITY

INFO SECSTATE WASHDC 6210

AMCONSUL KARACHI

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E.O. 11652: N/A

TAGS: BEXP, ETRD, PK

SUBJECT: PAKISTAN TYRES LIMITED

1 PAKISTAN TYRES LIMITED HAS BEEN FORMED BY GOP TO ESTABLISH TIRE MANUFACTURING FACILITY IN PAKISTAN. AFTER CONSIDERING PROPOSALS FROM MOST INTERNATIONAL FIRMS, CHICE FOR FOREIGN COLLABORATOR NARROWED TO FIRESTONE AND YOKOHAMA COMPANY, JAPAN. PAKISTAN TYRES EXECUTIVES HAVE FAVORED FIRESTONE AS COLLABORATOR AND KEPT EMBASSY FULLY INFORMED OF GOP REVIEW OF INVESTMENT PROPOSALS (JULY 29 MEMCON POUCHED TO NEA/PAB AND COMMERCE).

2. AS OF JULY 29 POSSIBILITY THAT FIRESTONE WOULD BE CHOSEN APPEARED VERY GOOD. FIRESTONE'S TECHNOLOGY WAS SLIGHTLY SUPERIOR, IT HAD OFFERED TO ACCEPT A PORTION OF TECHNICAL FEES IN EQUITY AND THE AMOUNT OF MACHINERY REQUIRED TO IMPORT INTO PAKISTAN WAS LESS UNDER THE FIRESTONE PROPOSAL (\$1.7 MILLION VERSUS \$2.3 MILLION). UNFAVORABLE FACTOR FOR FIRESTONE WAS ITS REQUEST 3.25 PERCENT OF NET SALES UP TO 35 MILLION UNITS AND 2.5 PERCENT OF NET ABOVE THAT FIGURES FOR ROYALTY PAYMENTS. YOKOHAMA WAS REQUESTING A STRAIGHT 1.25 PERCENT OF NET SALES. THE CENTRAL WORKING PARTY OF THE PLANNING COMMISSION, GOP WAS TO HAVE MET AUGUST 9 TO REACH A FINAL GOVERNMENT DECISION.

3. ON AUGUST 9 PAKISTAN TYRES PLANNING ADVISOR IGBAL,
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PROJECT DIRECTOR ALAM, AND PLANNING ENGINEER SHAIKH CALLED

AT EMBASSY TO STATE THAT WORKING PARTY MEETING POSTPONED TO AUGUST 19 AND JAPANESE OFFER REVISED. JAPANESE NOW OFFERING EQUITY INVESTMENT IN THE GENERAL AREA OF \$3-4 MILLION. JAPANESE HAVE ALSO INDICATED THEY HAVE DISCUSSED PROJECT WITH JAPANESE EXIM BANK WHICH HAS INDICATED WILLINGNESS TO PROVIDE FINANCING. PAKISTAN TYRES EXECUTIVES FEEL THIS NEW JAPANESE PROPOSAL IS LIKELY TO SWING DEAL IN FAVOR OF YOKOHAMA. FIRESTONE PROPOSAL ON EQUITY WAS TO ACCEPT ONE-THIRD OF ITS TECHNICAL FEE OF \$2.9 MILLION IN EQUITY PROVIDING FIRESTONE WOULD RETAIN OPTION AFTER FIVE YEARS TO PURCHASE MAJORITY EQUITY. TOTAL EQUITY INVESTMENT FOR THE ENTIRE PROJECT IS ESTIMATED AT \$15 MILLION.

4. THE OPTION TO PURCHASE MAJORITY AFTER FIVE YEARS WOULD BE ENTIRELY UNSATISFACTORY TO GOP. PAK TYRES BELIEVES THAT FIRESTONE PROPSAL TO ACCEPT ENTIRE TECHNICAL FEE IN EQUITY WOULD SWING BALANCE BACK TO FIRESTONE. IT WOULD ALSO BE USEFUL IF FIRESTONE COULD INDICATE SOME LEVEL OF DISCUSSION WITH EXIM BANUVAND ANY DEGREE OF INTEREST WHICH THE BANK MIGH SHOW IN FINANCING THE MACHINERY PURCHASES.

5. ACTION REQUESTED. REQUEST US DOC CONVEY THIS INFORMATION TO HOWARD E. HUNT, VP, FIRESTONE INTERNATIONAL IN AKRON. IF HUNT UNAVAILABLE, MR. CAMPBELL IN HIS OFFICE IS AWARE OF NEGOTIATIONS WITH PAK TYRES. FIRESTONE SHOULD TRANSMIT ANY NEW OR REVISED PROPOSAL DIRECTLY TO PAKISTAN TYRES IN KARACHI BUT THE EMBASSY WOULD APPRECIATE BEING KEPT INFORMED. US DOC SHOULD EMPHASIZE THE TIME LIMITATION WITH THE GOP MEETING AUGUST 19.
BYROADE

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FOREIGN INVESTMENT, INDUSTRIAL DEVELOPMENT, MANUFACTURES, TIRES
Control Number: n/a
Copy: SINGLE
Draft Date: 09 AUG 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: cunninfx
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974ISLAMA07695
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740218-0509
From: ISLAMABAD
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740861/aaaacaev.tel
Line Count: 91
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NEA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: cunninfx
Review Comment: n/a
Review Content Flags:
Review Date: 22 AUG 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <22 AUG 2002 by shawdg>; APPROVED <21 FEB 2003 by cunninfx>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: PAKISTAN TYRES LIMITED 1 PAKISTAN TYRES LIMITED HAS BEEN FORMED BY GOP TO
TAGS: BEXP, ETRD, PK, FIRESTONE, PAKISTAN TYRES LIMITED
To: COM
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005